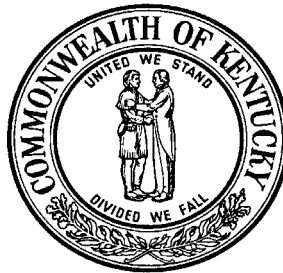


**REPORT OF THE AUDIT OF THE  
GRANT COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**April 23, 2005**



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Darrell L. Link, Grant County Judge/Executive  
Honorable Randy Middleton, Grant County Sheriff  
Members of the Grant County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the Grant County Sheriff's Settlement - 2004 Taxes as of April 23, 2005.

We engaged Tichenor & Associates, LLP to perform the financial audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Grant County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen  
Auditor of Public Accounts

Enclosure





**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**GRANT COUNTY**  
**SHERIFF'S SETTLEMENT - 2004 TAXES**

**April 23, 2005**

Tichenor & Associates, LLP has completed the audit of the Sheriff's Settlement - 2004 Taxes for Grant County Sheriff as of April 23, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$8,395,411 for the districts for 2004 taxes, retaining commissions of \$274,320 to operate the Sheriff's office. The Sheriff distributed taxes of \$8,115,825 to the districts for 2004 Taxes. Taxes of \$959 are due to the districts from the Sheriff and refunds of \$43 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were not adequately insured and collateralized by bank securities or bonds.



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**TICHENOR & ASSOCIATES, LLP**  
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To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Darrell L. Link, Grant County Judge/Executive  
Honorable Randy Middleton, Grant County Sheriff  
Members of the Grant County Fiscal Court

Independent Auditor's Report

We have audited the Grant County Sheriff's Settlement - 2004 Taxes as of April 23, 2005. This tax settlement is the responsibility of the Grant County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Grant County Sheriff's taxes charged, credited, and paid as of April 23, 2005, in conformity with the modified cash basis of accounting.

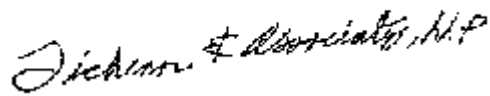
In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Darrell L. Link, Grant County Judge/Executive  
Honorable Randy Middleton, Grant County Sheriff  
Members of the Grant County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

Audit fieldwork completed -  
October 5, 2005

GRANT COUNTY  
RANDY MIDDLETON, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES

April 23, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,178,163	\$ 885,547	\$ 4,082,360	\$ 1,008,844
Tangible Personal Property	64,408	55,104	232,722	173,598
Intangible Personal Property				36,020
Fire Protection	1,502			
Increases Through Exonerations	230	173	759	197
Franchise Corporation	153,349	122,386	537,623	
Additional Billings	23	2,893	34	11
Bank Franchises	51,475			
Penalties	8,830	6,664	29,990	7,810
Adjusted to Sheriff's Receipt	(1,230)	214		117
Gross Chargeable to Sheriff	<u>\$ 1,456,750</u>	<u>\$ 1,072,981</u>	<u>\$ 4,883,488</u>	<u>\$ 1,226,597</u>
<u>Credits</u>				
Exonerations	\$ 2,098	\$ 1,663	\$ 7,681	\$ 2,091
Discounts	17,912	13,568	62,289	17,999
Delinquents:				
Real Estate	19,395	14,573	66,354	16,601
Tangible Personal Property	239	204	947	737
Intangible Personal Property				47
Uncollected Franchise	<u>1</u>	<u>1</u>	<u>5</u>	
Total Credits	<u>\$ 39,645</u>	<u>\$ 30,009</u>	<u>\$ 137,276</u>	<u>\$ 37,475</u>
Taxes Collected	\$ 1,417,105	\$ 1,042,972	\$ 4,746,212	\$ 1,189,122
Less: Commissions *	<u>60,514</u>	<u>44,326</u>	<u>118,655</u>	<u>50,825</u>
Taxes Due	\$ 1,356,591	\$ 998,646	\$ 4,627,557	\$ 1,138,297
Taxes Paid	1,355,760	998,153	4,624,846	1,137,066
Refunds (Current and Prior Year)	<u>686</u>	<u>524</u>	<u>2,250</u>	<u>890</u>
Due Districts or (Refund(s) Due Sheriff) as of Completion of Fieldwork	<u>\$ 145</u>	<u>\$ (31)</u>	<u>\$ 461</u>	<u>\$ 341</u>

\*, \*\*, and \*\*\*, See Page 4

The accompanying notes are an integral part of this financial statement.

GRANT COUNTY  
 RANDY MIDDLETON, COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2004 TAXES  
 April 23, 2005  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	3,639,199
2.5% on	\$	4,746,212

\*\* Special Taxing Districts:

Library District	\$	12
Health District		(19)
Extension District		(13)
Soil Conservation District		(3)
Mental Health District		(8)
		<hr/>

Due Districts or (Refund(s) Due Sheriff)	\$	<u>(31)</u>
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\*\*\* School Districts:

Grant County Schools	\$	248
Williamstown Independent		<u>213</u>

Due Districts or (Refund(s) Due Sheriff)	\$	<u>461</u>
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GRANT COUNTY  
NOTES TO FINANCIAL STATEMENT

April 23, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 2, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$166,701 of public funds uninsured and unsecured.

GRANT COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 23, 2005  
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 2, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	501,563
Uncollateralized and uninsured	<u>166,701</u>
Total	<u>\$ 768,264</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 14, 2004 through April 23, 2005.

Note 4. Interest Income

The Grant County Sheriff earned \$1,834 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of October 5, 2005, the Sheriff owed \$6 in interest to the Grant County school district, \$86 in interest to the Williamstown School District, and was due a refund of \$36 in interest from his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Grant County Sheriff collected \$42,581 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of October 5, 2005, the Sheriff owes \$3,871 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Grant County Sheriff collected \$1,190 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

GRANT COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 23, 2005  
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.090, property is presumed abandoned after three years, after which time it is turned over to the Kentucky State Treasurer, in accordance with KRS 393.110. For the 2004 taxes, the Sheriff had \$3,902 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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## COMMENTS AND RECOMMENDATIONS



GRANT COUNTY  
RANDY MIDDLETON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of April 23, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 2, 2004, \$166,701 of the County Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Sheriff's Response: No Response*

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties, which we consider to be a reportable condition. Due to the entity's diversity of official operations, small staff size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend the Sheriff implement some compensating controls to offset the weakness in the internal control structure.

- Cash receipts by mail should be received and recorded by someone separate from the duties of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. The Sheriff could greatly increase the level of compensating controls by requiring mandatory vacations and performing surprise cash counts.
- The Sheriff should periodically compare a daily bank deposit slip to the daily checkout sheet and then compare the daily checkout sheet to the receipt ledger. Any differences should be reconciled. He could document this by initialing the bank deposit slip, daily checkout sheet and receipts ledger.
- The Sheriff should compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- Two people should sign all disbursement checks, one being the Sheriff.

*County Sheriff's Response: None*

GRANT COUNTY  
RANDY MIDDLETON, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of April 23, 2005  
(Continued)

PRIOR YEAR:

- The Sheriff's Office Lacks Adequate Segregation Of Duties - This was not corrected and is repeated in the current year.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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The Honorable Darrell L. Link, Grant County Judge/Executive  
Honorable Randy Middleton, Grant County Sheriff  
Members of the Grant County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial Statement  
Performed In Accordance With Government Auditing Standards

We have audited the Grant County Sheriff's Settlement - 2004 Taxes as of April 23, 2005, and have issued our report thereon dated October 5, 2005. The Sheriff prepares his tax settlement in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Grant County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noticed a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial Statement  
Performed In Accordance With Government Auditing Standards  
(Continued)

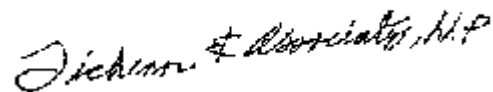
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Grant County Sheriff's Settlement - 2004 Taxes as of April 23, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

Audit fieldwork completed -  
October 5, 2005



